Hugau Gestion – August 2019 Review

By firing one tweet off after another, Donald Trump is causing global disruption. Companies across the globe are now hesitating before making long term investments due to his constant agitation and his attacks on free trade.

Sharply lower confidence levels could well end up provoking a recession. Global trade has already slowed sharply due to a trade war not only with China but also Canada and Mexico, not to mention pressure on Europe and Japan. The timing is also unfortunate: the autos sector is faced with the electric car revolution and new environmental standards are being introduced. All this is reflected in external trade statistics for the eurozone. As at end June 2019, exports of goods from the 19 countries in the zone to the rest of the world amounted to €189.9bn, a drop of 4.7% on June 2018. Over the same period, imports fell 4.1% to €169.3bn. At the same time, intra-eurozone trade suffered a 6.6% contraction. The fall in global trade has had a big impact on growth in Europe, a zone which has always been open to the world. GDP rose by only 1.1% in the second quarter of this year compared to the same quarter in 2018. Unsurprisingly, growth in Germany collapsed, with GDP down 0.1% in the second quarter after +0.4% in the first.

Growth rates of GDP in volume
(based on seasonally adjusted data)

	Percentage change compared with the previous quarter				Percentage change compared with the same quarter of the previous year			
	2018Q3	2018Q4	2019Q1	2019Q2	2018Q3	2018Q4	2019Q1	2019Q2
EA19	0.2	0.2	0.4	**0.2**	1.7	1.2	1.2	**1.1**
EU28	0.3	0.3	0.5	**0.2**	1.9	1.5	1.6	**1.3**

The source dataset can be found here.
Annualised growth rates are also available. They were 0.8% for both the euro area and the EU28 in 2019Q2.

Source: Eurostat

Exports in Germany represent 46% of GDP compared to 30% in France. A technical recession, i.e. two consecutive quarters with a contraction in GDP, is now a probability in Germany. The problem is that when Germany slips, satellites like the Netherlands, Luxembourg, Austria, Northern Italy and CEEC countries are also dragged down, a situation reflected in the contraction in intra-European trade mentioned above.

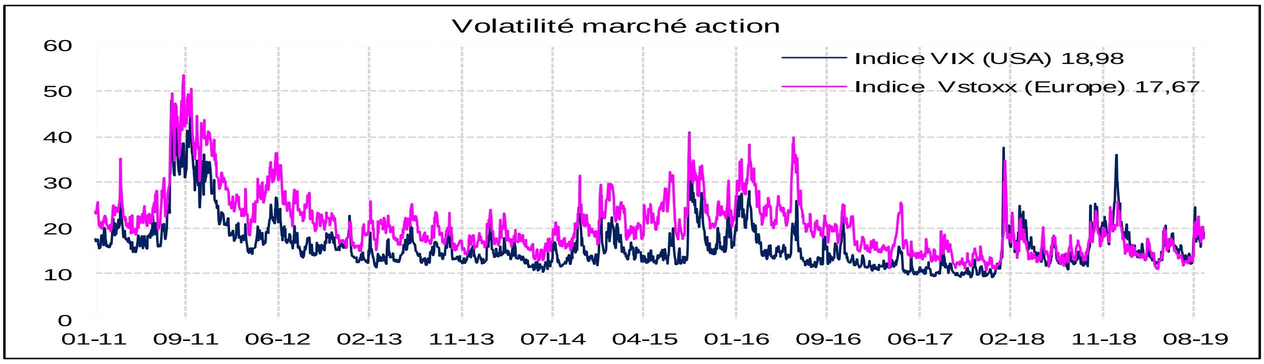
The attack on the Fed's independence is another very serious development. Donald Trump knowingly targeted a very sensitive area, prompting four former Fed chairs -Paul Volcker, Alan Greenspan, Ben Bernanke and Janet Yellen- to riposte with a Wall Street Journal opinion piece headlined “America Needs an Independent Fed” in which they defended Jay Powell against the White House’s repeated attacks. The US President has shown scant respect for institutions like the IMF, WTO, NATO and UN as well as treaties with the European Union and NAFTA and the Fed is an easy target at a moment when monetary policy standards are in question, a situation that the Fed itself describes as the “new normal”. The Fed pointed out that since its creation in 1913, it has been responsible for monetary policy and has no power over trade policy, an area which in the US is up to Congress and the White House.

We now have a situation where Donald Trump is not only waging an economic war against China but also his own central bank. He wants to impose a minimum 100bp cut in the Fed Funds rate to offset damage from the trade war and push the US dollar lower to help US companies.

The G7 summit in Biarritz on August 24-26 took place amid this heightened tension. Diplomatically, the event was a big success for France but US-China tensions persisted and even rose a notch when China introduced additional tariffs on $75bn-worth of US exports and Washington accused Beijing of currency manipulation. To make things worse in Europe, a rift opened up between the UK Prime Minister Boris Johnson and Brussels.

To sum up, equity market volatility in August exploded as the probability of a hard Brexit increased (Graph, Equity Market Volatility), Hong Kong saw civil unrest and the Italian government collapsed. But if markets fell across the board, the damage was limited by expectations of fresh monetary easing from central banks as the economic slowdown became more marked.

The mood was mirrored in a rapid fall in long government bond yields during the month. Germany's 10-year Bund yield fell to minus 0.7%, or much lower than in Japan (minus 0.27%). In the US, the yield curve flirted with inversion with 2-year Treasury yields at 1.5% and 10-year Treasuries at the same level (as of August 30). And for the first time ever, the US 30-year yield fell below 2% to 1.968% on August 30. Oil prices retreated as the EIA revised global demand lower and in spite of production cuts from OPEC and Russia and tensions in the Strait of Hormuz. Amid the carnage, only gold performed well, ending the month 6.37% higher.



Graph: Equity Market Volatility

HUGAU GESTION

NAV OF THE FUNDS

NAV Date	UCITS	NAV	% 1 Week	%1 Month	%3 Months	%YTD	%1 Year	%2 Years	%3 Years	%5 Years
					Cumulated Performances					
30/08/2019	HUGAU MONETERME I	120 815,28	-0,00	-0,00	+0,00	**+0,01**	**- 0,03**	**- 0,19**	**0,00**	**0,98**
30/08/2019	HUGAU OBLI 1-3 I	1 393,34	+0,05	+0,10	+0,83	**+2,31**	**1,11**	**- 0,14**	**2,86**	**5,08**

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